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COMPTROLLER GENERAL OF THE UNITED STATES
WASHINGTON, D.C. 20548

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Dear Mr. Chairman:

In your letter of January 28, 1972, you requested the cooperation of the General Accounting Office in a study of the insurance rate structure of the Overseas Private Investment Corporation (OPIC) suggested by the Senate Appropriations Committee in its report on the foreign assistance and related programs appropriation bill for fiscal year 1972.

We have developed, what we consider to be, the pertinent information relating to OPIC's insurance rate structure and, as suggested in your letter, have discussed this material with Mr. Norvill Jones of your staff. He requested that we provide the Committee with some guidelines that could be used in considering what sort of study OPIC should make of its insurance rate structure. In the following pages we are offering various suggestions. We are also including some pertinent background information on OPIC's present insurance rates.

OPIC's basic purpose is to encourage U.S. private investment in less developed countries and thereby to complement the development assistance objectives of the United States. The theory behind the OPIC insurance program is that U.S. private business will be encouraged to invest in foreign-based enterprises if insurance against the principal political risks (that is, expropriation, inconvertibility of currency, and war, revolution, or insurrection) of doing business in less developed countries is provided at a modest cost.

Prior to the establishment of OPIC, which was created by the Foreign Assistance Act of 1969 (Pub. L. 91-175, Dec. 30, 1969), the political risk insurance program was administered by the Agency for International Development. Two of the reasons stated in the Foreign Assistance Act of 1969 for establishing OPIC were:

1. To establish a corporate organization with businesslike operations which could provide for investment financing on a self-sustaining basis.

2. To apply risk management principles to the issuance of insurance.

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Thus, OPIC insurance fees should be set at a rate which will be low enough to encourage private investors yet at the same time be high enough to enable OPIC to operate on a self-sustaining basis. These two objectives are in conflict, to some extent.

Prior to the recent expropriation actions by the Government of Chile, which may result in claims in excess of OPIC's available funded reserves for insurance losses, claims paid for political risk insurance losses amounted to $4.1 million. OPIC therefore has a limited loss history upon which to base an actuarial or scientific fee rate. Moreover, OPIC insures against political losses which, by their nature, do not occur in a predictable manner.

The two essential elements in setting OPIC's insurance rate structure are the actual fees and the risk incurred. Because of the nature of OPIC's insurance program, both are matters of judgment.

OPIC FEES

Political risk insurance rates during the period from 1948 (convertibility insurance only) to March 1966 for the various types of risks were, as follows:

	Convertibility	Expropriation	War, revolution, or insurrection	Total
Current amount	1/2%	1/2%	1/2%	1-1/2%
Standby amount	1/4	1/4	1/4	3/4

In March 1966, in recognition of the very favorable loss experience at that time, the political risk insurance rate for convertibility insurance was reduced to 1/4 percent and the rate for standby coverage for each type of coverage was reduced to 1/10 percent. The rates for expropriation and war risk coverage remained at 1/2 percent. In March 1971 OPIC's insurance rates were increased, on an average, about 20 percent to the following current rates:

	Convertibility	Expropriation	War, revolution, or insurrection	Total
Current amount	3/10%	6/10%	6/10%	1-1/2%
Standby amount	1/4	1/4	1/4	3/4

In 1969 the Organization for Economic Cooperation and Development (OECD) prepared a study of the political risk insurance programs of the United States and the other developed countries. This study shows that the fees charged by the other developed countries are somewhat less than those charged by OPIC. It should be noted, however, that the programs of other developed countries are relatively new and considerably smaller in scale and that they generally indemnify a smaller portion of the loss when compared with the OPIC program. Enclosed is the most recent table prepared by OECD showing an overall comparison of the political risk investment insurance program of OPIC and other developed countries.

Another U.S. Government organization which provides political risk insurance is the Export-Import Bank of the United States. While covering the same risks that OPIC insurance does, Eximbank insurance covers credit extended by U.S. exporters and financial institutions to foreign businesses for periods of up to 5 years rather than U.S. private investments in foreign business for periods of 20 years. Eximbank's fee structure for its insurance differs from OPIC's in that Eximbank rates countries on their economic and political stability and charges various fees based on these ratings, as well as the term of credit and the willingness of the U.S. exporter to coinsure a portion of the credit extended. Eximbank's fees are substantially less than OPIC's fees for political risk insurance in the foreign countries which Eximbank has judged to be more economically and politically stable and slightly less in those countries which Eximbank has judged to be less stable. It should be noted, however, that Eximbank's insurance program, which covers both political and commercial risks, is operating at a net loss.

ASPECTS OF OPIC FEES WHICH COULD BE CONSIDERED IN THE RATE STRUCTURE STUDY

In the study of its insurance rate structure, OPIC could consider establishing rates on the basis of judgments of the economic and political stability of the foreign country in which the investment is made. Also consideration could be given to establishing rates by the type of industry being insured. For example, extractive type industries generally are more profitable and have more political risks involved than other types of industry and therefore OPIC could consider higher fees for insuring investments in extractive and other high-profit, high-risk industries.

OPIC RISK THREAT ANALYSIS

An analysis of OPIC's insurance portfolio shows that its insurance exposure in each of its risk categories (expropriation, convertibility, and war risk) is concentrated in relatively few countries. The following schedule shows this concentration as of December 31, 1971.

Country	Percent of total exposure		
	Expropriation	Inconvertibility	War risk
Chile	11.9%	26.7%	5.2%
Dominican Republic	8.2	21.8	9.7
Jamaica	19.8	(a)	24.1
Korea	6.6	3.8	11.1
Philippines	4.8	7.7	4.6
Total	51.3%	60.0%	54.7%

(a) Insignificant amount.

In addition to being concentrated in relatively few countries, OPIC's exposure has tended to be concentrated in relatively few projects ranging from $5 million to over $100 million.

Calendar year	Number of projects	Percent of total insurance issued
1965	10	62.6%
1966	12	33.6
1967	31	71.6
1968	30	85.8
1969	19	78.0
1970	25	81.6
Total	127	75.4%

ASPECTS OF RISK WHICH COULD BE CONSIDERED IN THE RATE STRUCTURE STUDY

OPIC has considered limiting its insurance exposure risks. Following are some additional methods of limiting insurance risks which OPIC could consider in its study of its rate structure.

1. Reinsurance--OPIC already has taken action to reinsure a part of its expropriation insurance portfolio. Up to $7 million of OPIC's expropriation insurance in each country, except Chile, has been reinsured

with Lloyds of London. OPIC officials have advised us that they have attempted to reinsure additional portions of expropriation exposure with other private insurers but to date have not been successful. OPIC could consider attempting to reinsure also its inconvertibility and war risk coverages.

2. Coinsurance--In October 1971, OPIC adopted a policy of insuring only a portion of the total investment in a certain high-dollar-value or high-risk projects. In studying its rate structure, OPIC could consider extending this policy to all insurance it issues and/or including a provision that the U.S. investor be a self-insurer for a portion of the total investment.

3. Other methods of limiting OPIC risks--In addition, consideration could be given to:

a. Placing an upper limit on the amount of insurance outstanding in each country.

b. Placing an upper limit on the worldwide total amount of each type of insurance risk.

c. Placing a maximum limit on each policy.

We believe that OPIC should consider the foregoing possibilities for resetting a rate structure that would permit an added degree of measurement of its exposure without adverse effect on its prime mission to encourage reasonably sound U.S. private investment in less developed countries.

If we can be of further assistance concerning this matter, please advise us.

Sincerely yours,

Comptroller General
of the United States

Enclosure

The Honorable J.W. Fulbright
Chairman, Committee on Foreign Relations SEN 0130
United States Senate

TABLE 1. SUMMARY OF GUARANTEE SCHEMES FOR OVERSEAS DIRECT INVESTMENT[1]

not available — *nil or not applicable*

DAC COUNTRIES[2] Name of executive agency of department	TYPES OF RISKS INSURED a) expropriation risks b) war risks c) transfer risks	GEOGRAPHIC COVERAGE a) worldwide b) developing countries only c) countries having signed bilateral agreement only	TYPE OF INVESTMENT COVERED[3] a) equity b) loans c) advances	SPECIFIC ELIGIBILITY CRITERIA a) development effect b) link with national export c) global ceiling	COVERAGE OF PRINCIPAL AND EARNINGS[4] a) initial investment b) reinvested earnings c) remitted earnings (*% of original investment*)	COVERAGE Indemnities paid as % of recognized loss	IN CASE OF LOSS Reductions in coverage	ANNUAL PREMIUM RATES % of outstanding amounts except if otherwise shown	DURATION OF COVERAGE	DATE OF EFFECTIVE ESTABLISHMENT	US $ ACCUMULATED GUARANTEES OUTSTANDING	CURRENT VOLUME OF NEW GUARANTEES EXTENDED
	I	II	III	IV	V	VI	VII	VIII	IX	X	XI	XII
AUSTRALIA Export Payments Insurance Corp (EPIC)	a) b) c)	a)	a) b) c)	b)	a) 100 % b) 100 % c)	up to 90 %	per net worth in financial statements	0 75 % on current amount (0 25 % per risk) plus half the above on stand-by amount	normally = minimum 5 years, maximum 15 years	May 1966	June 30 1969 · $ 18 8 m	nine months to June 30th, 1969 $ 16 m
CANADA Export Development Corp (EDC)	a) b) c)	a)	a) b) c)	a) and b) c) Can $ 50 m.	a) 100 % b) 50 % c) 150 %	90 %	as selected by investor	0 30 % for each of the three risks together	up to 15 years	mid-1969	—	—
DENMARK Danish International Development Agency (DANIDA)	a) b) c)	b)	a) b) c) to the extent they reflect a controlling interest in the investment	a) b) c) $ 29 m.	a) 100 % b) c) 8 % p a. for up to 3 years	85 % to 90 %	nil, unless unusually high repatriation, or effective compensation	0.5 % plus 1/8 of 1 % on stand-by amount	up to 15 years	May 1966	May 1970 · $ 7 3 m.	12 months to April 1, 1970 $ 2 3 m
GERMANY Deutsche Revisions — und — Treuhand AG and Interministerial Board	a) b) c)	c) and some other countries	a) b) c)	a)	a) 100 % b) 50 % c) 8 % p.a. for up to 3 years	up to 95 %	going concern value not exceeding capital brought in	0.5 % of current amount for the three risks together	normally = up to 15 years exceptionally = up to 20 years	1960	mid-1969 · $ 280 m.	8 months to August 31st, 1969 $ 22 m
JAPAN[5] Ministry of International Trade and Industry (MITI)	a) b) c)	a)	a) b) c)	b)	a) 100 % b) 100 % c) 10 % p a.	up to 90 %	reduction based on book value	0 55 % for the three risks together	normally up to 15 years	capital 1956 profits 1957 merger 1970	December 1969 . $ 59 5 m	1968 (capital scheme only) $ 6 3 m
NETHERLANDS Netherlands Credit Insurance Company	a) b) c)	b)	a) b) c)	a) b)	a) 100 % b) 50 % c) 8 % p a.	up to 90 %	limited amortization during last 5 years of coverage	0 8 % for the three risks together	up to 15 years following completion of the investment	1969	December 1969 · $ 4 m.	1969 $ 4 m
NORWAY Institute for Export Credits Guarantees	a) b) c)	a)	a) or a) and b) together	a) c) $ 84 m (covering both export credits and investments)	a) 100 % b) c) 7 % p a up to three years	up to 90 %	fixed schedule of amortization — starts normally after three years	0 5 % of maximum amount for the three risks together	up to 20 years	1964/5	June 1970 · $ 15 9 m	12 months to May 31, 1970 · $ 14 2 m
PORTUGAL Ministry of Finance	credits a) b) c) bonds a) b) and c) optional	overseas provinces only	b) only	a) c)	equity investments are not covered	100 %	loan amortization	free	duration of loan		December 1969 $ 84 m.	1968 $ 58 m
SWEDEN Swedish Export Credits Guarantee Board (EKN)	a) b) c)	b) selected countries only	a) and b) to extent they reflect controlling interest in co Minority equity possible	a) c) $ 80 m	a) 100 % b) c) 8 % p a. of maximum coverage not exceeding 24 % of initial amount invested	80 - 90 %	phasing out system on a case by case basis	0.7 % for the three risks together	normally up to 15 years exceptionally up to 20 years	1968	—	—
SWITZERLAND	a) b) c) in addition insolvability or refusal to pay by local public entities	b) in principle	a) b) c)	a) b) in some cases c) $ 116 m	a) 100 % b) c) up to 24 % of principal	up to 70 %	for equity, in principle regular amortisation (around 5 % per year)	principal 1 25 % profits 4 % of expected profits	15 years in principle	1970	—	—
UNITED STATES[6] Overseas Private Investment Corporation (OPIC) Until 1970, Agency for International Development (AID)	a) b) c)	c) (to date some 92 countries)	a) b) c)	a) c) 1970-1974 authority for $ 7 5 billion new insurance	a) 100 % b) 100 % of principal c)	99 %	per net worth in financial statements	a) 0 25 % (convertibility) b) 0 50 % (expropriation) c) 0 50 % (war) b) and c) *combined* 0 875 % plus 0.1 % on standby amount	equity = maximum 20 years loan = duration of the loan	1948	December 1969 · $ 7 3 billion (December 1965 : less than $ 2 billion)	1969 $ 1 25 billion

1 Table 1 provides an overall comparative presentation of the respective schemes Provisions of individual schemes may in some cases not correspond exactly to the common classification adopted in the table Details of the various schemes however, are provided in individual country chapters below

2 To date, five Member countries have no comprehensive schemes (Austria Belgium, France, Italy, the UK) As regards Belgium, a guarantee scheme is likely to be approved in 1970 Schemes in Austria and France relate only to a limited category of investments for the overseas marketing of exports

3 Investments can be in the form of equity and loan participations, and advances, the consideration for which may be cash, machinery, goods know how and services

4. This column shows the coverage of principal and earnings for equity investments only As regards loan investments, schemes wholly cover outstanding principal and interest

5 The table gives a presentation of the newly revised Japanese scheme, following the merger in April May 1970 of the two previously distinct schemes

6 The Table gives only a presentation of the Specific Risk Guaranty Programme, (the new name of this programme, now under the administration of OPIC, is *Investment Insurance*) The Extended Risk Guaranty Programme (equally now under the administration of OPIC, under the heading of *Investment Guaranty*) has not been inserted in the Table, data on this latter programme are provided in the chapter on the United States

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